

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 /122 W
-----035273 011318Z /43

R 010720Z JUN 78

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 360

INFO AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY LONDON

AMEMBASSY TOKYO

UNCLAS SINGAPORE 2407

E.O. 11652: N/A

TAGS: EFIN, SN

SUBJECT: NEW OFFSHORE BANKING REGULATIONS

1. MONETARY AUTHORITY OF SINGAPORE HAS DISTRIBUTED TO BANKS
A CONFIDENTIAL MEMORANDUM DATED MAY 25 WHICH ABOLISHES ALL
EXCHANGE CONTROLS AS OF JUNE 1 AND, PROBABLY MORE SIGNIFICANTLY,
ALLOWS OFFSHORE BANKS FOR FIRST TIME TO MAKE LOANS TO LOCAL
COMPANIES (INCLUDING FOREIGN SUBSIDIARIES) FREELY IN ANY
CURRENCY EXCEPT SINGAPORE DOLLARS. OFFSHORE BANKS MAY, AS
PREVIOUSLY, ONLY MAKE SINGAPORE DOLLAR LOANS TO LOCAL COMPANIES
IN AMOUNTS OVER \$ONE MILLION FOR TERM OVER TWO YEARS AND MUST
APPLY TO MAS FOR PERMISSION TO DO SO.

2. LOCAL U.S. BANKERS BELIEVE THAT OFFSHORE BANKS SHOULD NOW
BE MORE COMPETITIVE WITH LOCAL FULL-SERVICE BANKS AND THAT SOME
U.S. BANKS WILL NOW ADJUST THEIR LOCAL ORGANIZATION AND PERSONNEL
STRUCTURE TO TAKE ADVANTAGE OF NEW OPPORTUNITIES TO LEND LOCALLY.
EXCLUSION OF SINGAPORE DOLLAR LOANS IS NOT CONSIDERED SERIOUS
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OBSTACLE, SINCE LOCAL LENDERS CAN EASILY EXCHANGE OTHER CURRENCIES
FOR SINGAPORE DOLLARS (ALTHOUGH THIS WILL INVOLVE EXCHANGE RATE
RISKS AND THUS STILL GIVE FULL-SERVICE BANKS SOME ADVANTAGE).
U.S. BANKERS HERE ARE PLEASED WITH MAS CHANGE, WHICH IS ONE IN
SERIES OF STEPS DESIGNED TO IMPROVE CLIMATE FOR FURTHER DEVELOP-
MENT OF SINGAPORE AS REGIONAL FINANCIAL CENTER. FOR EXAMPLE,
OFFSHORE BANKS WERE RECENTLY AUTHORIZED TO CARRY THEIR FOREIGN

EXCHANGE TRANSACTION PROFITS IN THEIR ASIAN CURRENCY UNITS
RATHER THAN THEIR DOMESTIC BANKING UNITS, WHICH MEANS THAT
THESE PROFITS ARE NOW TAXED AT ONLY 10 PERCENT.

3. MOTIVES FOR MAS'S CHANGE IN REGULATIONS SEEM FAIRLY CLEAR.
OFFSHORE BANKS ARE NOW VERY LIQUID AND WELCOME OPPORTUNITY TO
COMPETE WITH FULL-SERVICE BANKS IN ATTRACTING SINGAPORE CUSTOMERS.
BETTER FINANCIAL TERMS SHOULD STIMULATE MORE LOCAL INVESTMENT.
ALSO, PROSPECTIVE FOREIGN INVESTORS MAY BE HAPPIER IF THEY CAN
CONTINUE TO DO BUSINESS IN SINGAPORE WITH BANKS THEY USE AT HOME.
GOS LEADERSHIP, NEVER SANGUINE ABOUT ECONOMIC PROSPECTS, FEARS
THAT SINGAPORE WILL HAVE TO TRY HARDER TO MAINTAIN ITS GROWTH
RATE AND SEES SINGAPORE'S ROLE AS REGIONAL BANKING CENTER AS WAY
OF DIVERSIFYING ECONOMY AND LIMITING ITS VULNERABILITY TO TRADE
AND INVESTMENT PROBLEMS.
HOLDRIDGE

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